



Contribution of the Municipality of Budapest to the European Commission's Rule of Law Report 2026

A Capital under Pressure: Budapest and the Local Dimension of the Rule of Law

The following document is the comprehensive account of the contribution of Budapest's submission in the context of the targeted stakeholder consultation for the 2026 Rule of Law Report.

Cities are at the heart of European issues and are key to Europe's future. Today, nearly three-quarters of European citizens live in urban areas.¹ As the recently released EU Agenda for Cities notes, cities “drive growth, competitiveness, and innovation, while also playing a critical role in promoting sustainability and social inclusiveness.”² They are important actors for positive change through social diversity, education, economic development and green transition, serving as hubs of openness, tolerance, and progressive ideals.

Yet, municipalities are facing numerous challenges, ranging from housing and soaring energy costs to climate change and poverty. Beyond these challenges, there is also an increasing awareness of how the backsliding of the rule of law negatively affects cities and municipal authorities, undermining their capacity to respond to these complex challenges. While municipal administrations act as laboratories for democratic innovation, promoting participatory and citizen-centred governance and building cross-border partnerships and international city networks—their resilience is put to the test due to the decline of the rule of law.

While some might consider it an outlier, the case of Budapest highlights broader rule-of-law challenges that can affect cities across Europe to varying degrees. As this issue is often systemic, the role of the European Commission in addressing it is essential.

1. Local municipalities and cities as important guardians of the Rule of Law

Local municipalities and governments are foundational to the European constitutional system, operating within the framework the vertical separation of powers as the territorial division of authority. This vertical dimension of checks and balances complements the horizontal

¹‘Urban-Rural Europe - Demographic Developments in Rural Regions and Areas’, accessed 13 January 2026, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Urban-rural_Europe_-_demographic_developments_in_rural_regions_and_areas.

²An EU Agenda for Cities: Driving Growth and Prosperity, COM(2025) 739 final 1 (2025), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025DC0739&qid=1768314651057>.

separation between legislative, executive, and judicial powers, preventing the excessive concentration of public authority at the central level.³

Their autonomy rests on a system of judicial review, administrative supervision, and constitutional constraints, ensuring alignment with national constitutions and EU law while preserving meaningful decision-making authority at the local level.⁴ In doing so, they play an active role in maintaining the balance of public authority within Europe's decentralized and multilevel constitutional architecture, reinforcing both the legitimacy and resilience of democratic governance.⁵

At the European level, this role is normatively set out in the principle of subsidiarity, a core principle of European Union law enshrined in Article 5(3) of the Treaty on European Union (TEU). Subsidiarity requires that public responsibilities be exercised at the lowest effective level of governance, thereby designating local authorities not as mere administrative extensions of the central government, but as autonomous actors.⁶

The European Court of Human Rights has also consistently stressed the importance of local self-government as an element of democratic society under Article 3 of Protocol No. 1 and Article 11 ECHR.⁷⁸ According to the court, the protection of institutional pluralism and participatory governance at the local level contributes to democratic stability and legal certainty.⁹

Moreover, while not the Union's law, the European Charter of Local Self-Government has been signed and ratified by all Council of Europe members and, by extension, all EU member states. The Venice Commission highlights that while "approaches to local self-government vary greatly between European countries", the charter sets minimum standards for the protection and autonomy of local authorities". In addition, "all national authorities must respect their international obligations and take the necessary measures to adopt corresponding legal frameworks in line with the Charter's provisions".¹⁰

Local governments are also often the most immediate point of contact between citizens and public authority, and they remain among the most trusted institutions. Polling shows that local and municipal authorities are not only trusted by citizens significantly more than national governments, but also that this trust has been increasing in recent years.¹¹ Their adherence to

³Bruce Ackerman, 'The New Separation of Powers', Harvard Law Review 113, no. 3 (2000): 633, <https://doi.org/10.2307/1342286>.

⁴Explanatory Report to the European Charter of Local Self-Government (1985), <https://rm.coe.int/16800ca437>.

⁵Neil Walker, 'The Idea of Constitutional Pluralism', *The Modern Law Review* 65, no. 3 (2002): 317–59, <https://doi.org/10.1111/1468-2230.00383>.

⁶Weatherill, *Cases and Materials on EU Law*, 2023

⁷Mathieu-Mohin and Clerfayt v. Belgium, 9267/81 (ECtHR 2 March 1987), <https://hudoc.echr.coe.int/eng?i=001-57536>.

⁸United Communist Party of Turkey and Others v. Turkey, 58128/00 (ECtHR [GC] 30 January 1998), <https://hudoc.echr.coe.int/eng?i=001-58128>.

⁹The United Macedonian Organisation Ilinden and Others v. Bulgaria (No. 3), 29496/16 (ECtHR 11 January 2018), <https://hudoc.echr.coe.int/eng?i=001-179869>.

¹⁰Venice Commission, REPORT ON THE STATUS OF THE EUROPEAN CHARTER OF LOCAL SELF-GOVERNMENT IN THE DOMESTIC LEGAL ORDER, CDL-AD(2025)049 (2025), <https://www.venice.coe.int/webforms/documents/?pdf=CDL-AD%282025%29049-e>.

¹¹FELIU Clara Hormigos and Lewis Dijkstra, JRC Working Papers on Territorial Modelling and Analysis, No 11/2025, JRC144424 (European Commission, 2025), <https://publications.jrc.ec.europa.eu/repository/handle/JRC144424>.

EU values—such as transparency, non-discrimination, and procedural fairness—only strengthens public trust in the legal system. In contexts where national governments may undermine rule-of-law standards (e.g., through centralization or politicization of local functions), resilient local institutions can serve as guardians of legal stability and democratic legitimacy, aligning with EU foundational values.

Cities and local municipalities are essential for ensuring the effective implementation of the partnership principle. As highlighted by the Committee of the Regions, the partnership principle, cornerstone of multilevel governance, requires genuine cooperation between EU institutions, Member States, and regional and local authorities throughout the policy cycle.¹² Through this mechanism, local authorities are recognised not merely as implementing agents but as constitutional stakeholders contributing to the legitimacy and effectiveness of EU governance.

2. Hungary and the municipality of Budapest: a dangerous precedent

2.1 Rule of Law situation in Hungary

The erosion of the rule of law in Hungary is a systemic issue. Since 2010, it has been clearly acknowledged in several Parliament reports, and in the Commission's Rule of Law reports and country-specific recommendations. The 2013 Tavares Report,¹³ the 2018 Sargentini Report,¹⁴ and finally the 2025 Strik Report,¹⁵ noted the serious breaches in the rule of law in Hungary. These include serious and systemic deficiencies in key areas such as judicial independence, media pluralism, corruption, and the lack of effective checks and balances. The dismantlement of democratic safeguards has led to Hungary becoming a “hybrid regime of electoral autocracy.”¹⁶¹⁷ The latest 2025 report by the European Commission concluded that these deficiencies have not only not been addressed, but systemic and structural issues have, on the contrary, worsened.¹⁸

¹²Resolution of the Committee of the Regions on the Charter for Multilevel Governance in Europe, Pub. L. 2014/C 174/01, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52014XR1728>.

¹³European Parliament Resolution of 3 July 2013 on the Situation of Fundamental Rights: Standards and Practices in Hungary (Pursuant to the European Parliament Resolution of 16 February 2012) (2012/2130(INI)), Pub. L. C 75/52 (2016), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=oj:JOC_2016_075_R_0010.

¹⁴European Parliament Resolution of 12 September 2018 on a Proposal Calling on the Council to Determine, Pursuant to Article 7(1) of the Treaty on European Union, the Existence of a Clear Risk of a Serious Breach by Hungary of the Values on Which the Union Is Founded (2017/2131(INL)), Pub. L. C 433/66 (2018), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=oj:JOC_2019_433_R_0010.

¹⁵Parliament Sounds the Alarm over Hungary's Deepening Rule of Law Crisis | News | European Parliament', 25 November 2025, <https://www.europarl.europa.eu/news/en/press-room/20251120IPR31492/parliament-sounds-the-alarm-over-hungary-s-deepening-rule-of-law-crisis>.

¹⁶European Parliament Resolution of 25 November 2025 on the Proposal for a Council Decision Determining, Pursuant to Article 7(1) of the Treaty on European Union, the Existence of a Clear Risk of a Serious Breach by Hungary of the Values on Which the Union Is Founded, P10_TA(2025)0233.

¹⁷WJP Rule of Law Index', accessed 13 January 2026, <https://worldjusticeproject.org/rule-of-law-index/country/2025/Hungary>.

¹⁸2025 Rule of Law Report Country Chapter on the Rule of Law Situation in Hungary, SWD(2025) 917 final, https://commission.europa.eu/document/download/524bd8d4-33ba-4802-891f-d8959831ed5a_en?filename=2025%20Rule%20of%20Law%20Report%20-%20Country%20Chapter%20Hungary.pdf.

On the top of that, last year was marked by a significant deterioration of civil rights in the country with the promulgation of a new constitutional (fundamental law) amendment in April 2025.¹⁹ The amendment is undermining the fundamental rights of LGBTQI people and effectively prohibiting Pride or similar events.²⁰ Moreover, the parliament introduced a legislative proposal titled “Transparency of Public Life” that would, if adopted, allow authorities to impose heavy fines, and even ban and force the closure of NGOs and other organizations deemed to be a “threat to national sovereignty”, according to a very broad and opaque definition.²¹

2.2 Municipalities deteriorating situation in Hungary

However, besides civil society actors, local and municipal authorities led by the opposition have also faced continuous pressure from the Orbán government. Failing to mention the dire situation of municipalities would create the misleading impression that the system of local self-government—particularly in major urban centres—continues to provide an effective vertical check on central power or remains insulated from the government’s broader efforts to dismantle constitutional constraints. In reality, this assumption no longer holds. In fact, since the election of Mayor Gergely Karácsony in 2019, the municipality of Budapest has felt increasingly more legal, political, and economic pressure from the central government.

2.2.1 The systematic withdrawal of municipal competences

While the autonomy of municipal authorities in Hungary had already been subject to gradual erosion over the last few decades, it is since the election of the second Orbán government in 2010 that local authorities have experienced a systemic turning point in their role and the functioning of local self-government. In 2010, the law on municipal elections was changed, tightening the electoral threshold for local officials, the rules on electoral lists, and the number of mandatory recommendations for candidates. These changes resulted in smaller municipal assemblies, with fewer independent candidates and fewer mandates. Whereas in 2006 there were 901 local mandates, this number was reduced by 2014 to only 418.²² Mayors and elected municipal officials were also barred from holding a municipal office and a mandate in the National Assembly at the same time²³

This process was deepened by the adaption of the Act CLXXXIX of 2011 on local governments, subsequently embedded in the new Constitution (Alaptörvény) adopted in 2012.²⁴ These legislative reforms transferred core competences from elected local bodies to

¹⁹Hungarian Helsinki Committee, ‘Exclusion and Threatening Dissenters on a Constitutional Level - Information Note on The 15th Amendment Of Hungary's Fundamental Law and Accompanying Laws’, 19 March 2025, n.d., https://helsinki.hu/en/wp-content/uploads/sites/2/2025/03/HHC_info_note_15th_Amendment_19032025.pdf.

²⁰Hungarian Helsinki Committee, ‘Unofficial Translation of Bill T/11152. as Adopted by the Parliament of Hungary on 14 April 2025 - The Fifteenth Amendment to the Fundamental Law of Hungary’, n.d., https://helsinki.hu/en/wp-content/uploads/sites/2/2025/04/Bill_11152_adopted_EN_unofficial_translation.pdf.

²¹‘Moody’s Cuts Budapest Rating to “junk” as Dispute with Orbán Deepens’, Euronews, 17:07:24 +01:00, <http://www.euronews.com/business/2025/12/30/budapests-credit-rating-falls-to-junk-as-funding-row-with-orban-government-deepens>.

²² Pálné Kovács Ilona, *Modellváltás a magyar önkormányzati rendszerben.*, 2016, 583-599.

²³ Ibid.

²⁴ Ibid.

centralized state organs, particularly lower-tier government offices. The law withdrew the role of municipalities in public education and many administrative affairs, as well as the municipal competence to sanction certain types of legal infringements.²⁵ One of the most consequential of these changes was, however, the removal of municipal competence in spatial planning and building regulation—areas that directly shape local development and living conditions. Another important change was that while Hungarian municipalities retain taxing powers under Act C of 1990, these powers became tightly circumscribed. Although locally collected tax revenues are legally the property of municipalities, the central legislature strictly defines the types of taxes, tax bases, maximum rates, and taxable subjects. For Budapest, as for most municipalities, the local business tax constitutes the single most important source of independent revenue and is essential for the financing of public services. The central government has increasingly centralized this revenue stream, leaving local governments—especially large cities—highly dependent on a narrow and tightly regulated revenue base in practice.²⁶

The inclusion of these changes in the new Constitution meant a constitutionally enshrined diminution of municipal democracy. In practice, the changes transformed radically the autonomy of the municipal system in Hungary, affecting both the substance and form over the last decade,²⁷ resulting in a system that is built not on cooperation and coordination, but rather on a system of hierarchy, on a model of dependency of municipal actors from the central government.²⁸ This degradation raises significant concerns regarding Hungary's compliance with the rule of law and European legal standards. In its report on "Local and Regional Democracy in Hungary," the Congress of Local and Regional Authorities of the Council of Europe expressed "deep concern" regarding the "trend towards recentralisation of competences and the weak level of protection afforded, at the constitutional level, to the principle of local self-government".²⁹

This centralizing trajectory culminated in legislative amendments adopted in July 2022, which reintroduced the title *Főispán* for heads of government departments, signifying the supremacy of central state authority over increasingly marginalized municipalities.

In addition, the current government also has a track record of changing electoral laws, including those for municipalities, just before elections. In 2024, for instance, half a year prior to the municipal elections, the Parliament passed a law changing Budapest's municipal election system to one that would be more favorable to the governing party.³⁰

This exclusion of municipalities from decision-making also concerns the distribution of EU funds in Hungary: no city, including the capital city, has ever been designated as an

²⁵Népszava, 'Az önkormányzati autonómia felszámolása és a kiút', Népszava, accessed 22 January 2026, https://nepszava.hu/3124272_az-onkormanyzati-autonomia-felszamolasa-es-a-kiut.

²⁶ Ibid.

²⁷ Katalin Adél Rámhápné Radics, 'Helyi Önkormányzati Autonómia: Mi Vátozik, Mi Marad?', *Közigazgatás Tudomány* 3, no. 1 (2023): 85–98, <https://doi.org/10.54200/kt.v3i1.50>.

²⁸ Pálné Kovács Ilona, *Modellváltás a magyar önkormányzati rendszerben.*, 2016, 583-599.

²⁹ Artur TORRES Pereira and Devrim Çukur, *Local and Regional Democracy in Hungary*, 2013.

³⁰ 'Fél évvel a választás előtt átírták a szabályokat, a Fidesz megszavazta a Mi Hazánk javaslatát', *telex*, 12 December 2023, <https://telex.hu/belfold/2023/12/12/onkormanyzati-valasztasi-torveny-modositasa-budapest-parlament-mi-hazank>.

Intermediate Body or Managing Authority for an Operational Programme. Cities' roles in EU programming in Hungary have remained mostly consultative, through monitoring committees.

2.2.2 Financial pressure and undermining Budapest's fiscal autonomy

Reduction of municipal revenues

During the COVID-19 pandemic, in contrast to many cities in Europe, rather than providing additional financial support, the Hungarian government-imposed measures that directly reduced municipal revenues. The business tax rate for enterprises was halved from 2% to 1%, resulting in a loss of approximately HUF 20 billion for Budapest in 2021 and a further HUF 20.5 billion in 2022. In addition, the obligation for large companies with annual turnover exceeding HUF 100 million to pay business tax advances in December was abolished. This measure disproportionately benefited large, crisis-resilient companies while depriving local governments of crucial liquidity. Budapest alone lost an estimated HUF 40 billion in revenue.

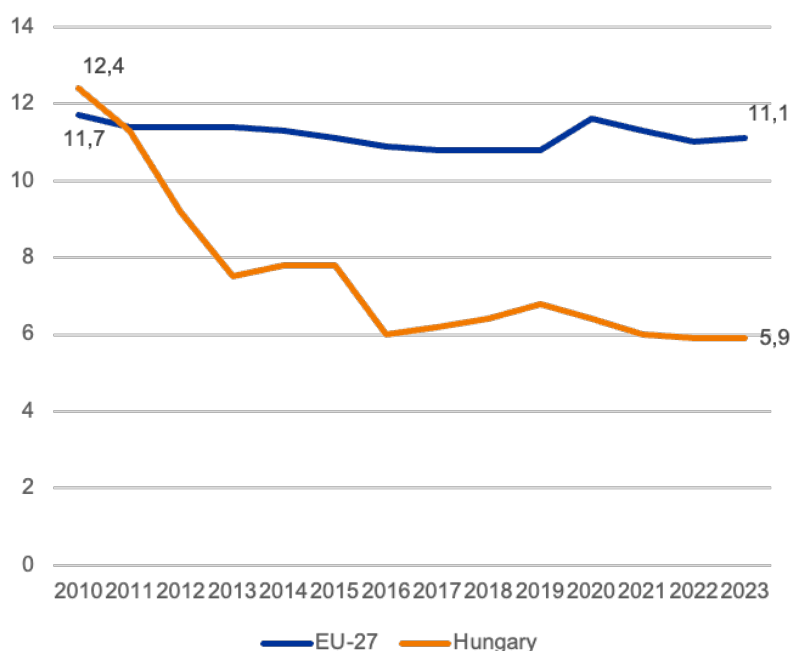
The government has also maintained a regime requiring prior governmental approval for municipalities and municipally owned companies to take out commercial or investment loans. In the past two years, the government has rejected—without substantive justification—three loan applications by the Municipality of Budapest that had already been approved by the European Investment Bank and were linked to economically viable development projects.

There has also been a reduction in the municipal budget due to the central government not fulfilling its contractual obligations, resulting in the bill needing to be paid by the municipality. This was the case during the renovation of the Chain Bridge.³¹ While the government was obliged to pay HUF 6 billion to the municipality to cover its costs, it never did. Similarly, the national authorities did not pay for the new trolleybuses, nor did they pay transport subsidies to Budapest last year.³²

³¹Népszava, 'Budapest karácsonyi csoda nélkül maradt, az Orbán-kormány csak az ígért pénz kisebbik részét fizette ki', Népszava, accessed 21 January 2026, https://nepszava.hu/3306287_budapest-orban-kormany-trolibuszok-kozossegi-kozlekedes-karacsony-csoda.

³²Népszava, 'Budapest karácsonyi csoda nélkül maradt, az Orbán-kormány csak az ígért pénz kisebbik részét fizette ki', Népszava, accessed 21 January 2026, https://nepszava.hu/3306287_budapest-orban-kormany-trolibuszok-kozossegi-kozlekedes-karacsony-csoda.

Figure 1: Share of the municipal expenditures in GDP (in %) of the EU (EU-27) and in Hungary (from 2010 to 2023)



The cumulative effect of these measures has placed Budapest in a precarious financial position, threatening the provision of essential public services—most notably public transport—and undermining the city’s ability to cover even basic operating costs. While government measures have affected all municipalities, only those with fewer than 25,000 inhabitants have received automatic, normative compensation by government decree. These municipalities are overwhelmingly led by pro-government or politically aligned mayors.

For larger municipalities, compensation has been granted on an ad hoc basis, following opaque negotiations and following undisclosed criteria. Available data show that the majority of compensated municipalities are governed by pro-government mayors, while opposition-led municipalities receive significantly less support. Notably, the central government has not entered into any negotiations with the Municipality of Budapest, nor has the capital received any compensatory assistance.

Solidarity Tax

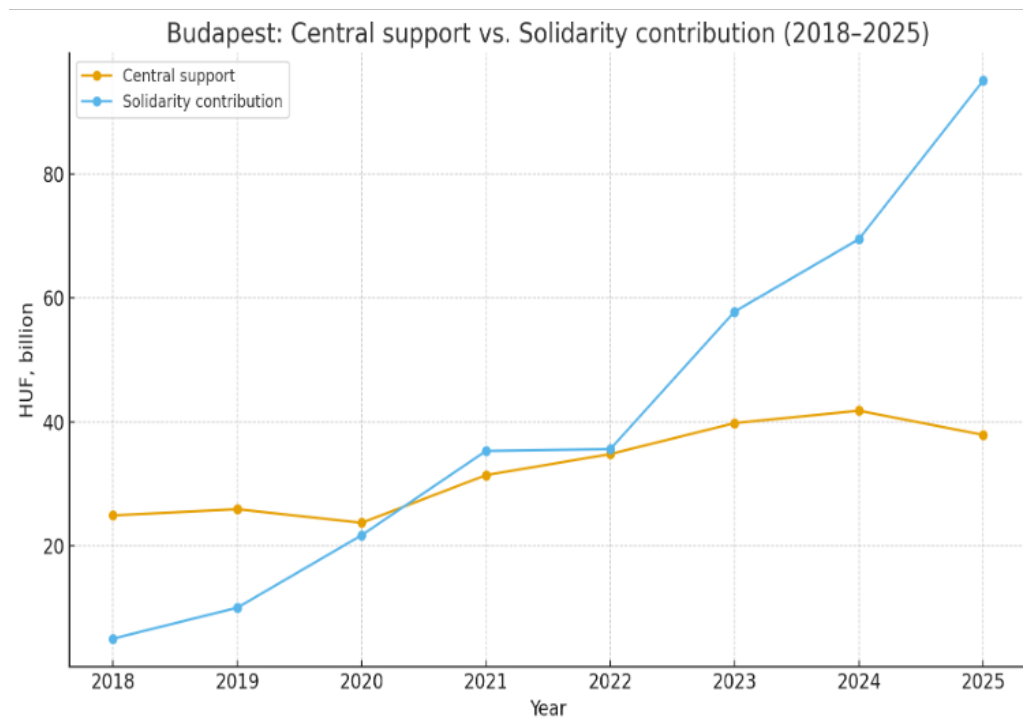
Further financial pressure was exerted through the sharp increase in the so-called solidarity contribution (“szolidaritási hozzájárulás”) or solidarity tax, a special tax first introduced in 2017 and imposed on wealthier municipalities with the aim of redistributing it among poorer municipalities. However, in reality, it is not transparent how exactly these funds are distributed, and their imposition reflects a political choice more than well-grounded public policy.

Since 2019, the solidarity tax has grown exponentially. In 2018, it represented HUF 5 billion (EUR 13 million); last year, it was nearly HUF 90 billion (EUR 234 million), which reaches one fourth of the total city budget. While an increasingly higher solidarity tax was imposed on cities—in particular, Budapest—their revenue streams did not grow nearly as much, and the state aid received from the central government remained stagnant. These developments meant that the city had fewer means and significantly fewer financial resources than it started with in 2019 (see figure 2.).

One of the most significant escalations came on 29 May 2025, when the Hungarian State Treasury (Államkinctár) withdrew HUF 10.2 billion directly from the Municipality of Budapest's bank via a solidarity contribution set-off. This enforcement action took place despite ongoing legal disputes regarding the lawfulness and procedural fairness of the solidarity tax. While the municipality secured an interim judicial order requiring the Treasury to return the amounts deducted for the period from May to August, this remedy was temporary in nature and failed to resolve the underlying structural conflict. As legal experts observed, the court decision merely delayed the immediate liquidity crisis while leaving the municipality vulnerable to renewed enforcement.

In parallel with these developments, the government also appointed László Domokos, former President of the State Audit Office (ÁSZ), to review Budapest's finances. Though presented as a technical audit, Domokos has been a long-standing public figure closely aligned with the Hungarian government and previously occupied senior state positions aligned with government policy objectives. His designation therefore appears less as a politically neutral intervention than as part of a broader pattern of central government's targeted intrusion into the affairs of an opposition-led capital, aiming at weakening institutional autonomy at the local level.

Figure 2: Central government grants versus solidarity contribution to be paid into national budget 2018-2025 by Budapest



Furthermore, government narratives have increasingly sought to attribute Budapest's financial difficulties to alleged fiscal mismanagement by the current municipal leadership. However, such claims overlook the impact of external constraints: the systematic withdrawal of revenue, selective compensation, and unlawful enforcement measures of solidarity contributions. While the municipality has faced difficult budgetary choices, its liquidity depletion stems from extraordinary, politically targeted burdens rather than inherent irresponsibility.

As a result, Budapest finds itself in a situation where financial resources have been exhausted. Daily operations depend on short-term financial instruments, putting essential public services—in particular public transport—increasingly at risk. This situation represents not merely a fiscal challenge, but a crisis of institutional trust, fueled by the erosion of legal certainty and the absence of predictable, rule-based relations between central and local authorities. Any sustainable resolution would require the restoration of lawful procedures, genuine intergovernmental cooperation, and respect for local self-government. Without these conditions, and with further central interventions, the situation risks deepening rather than resolving the constitutional and rule-of-law crisis.

These concerns have since been validated by the Hungarian Constitutional Court and the Curia (the Supreme Court of Hungary).³³ In a series of rulings in which they have examined how the solidarity contribution was imposed and enforced, the courts found that the Hungarian Government failed to ensure a fair procedure and failed to respect due process when determining the amount of the solidarity contribution. Moreover, direct collection against the capital's accounts was deemed an unlawful interference with financial autonomy that bypassed procedural safeguards and deprived the municipality of effective legal remedies. These judicial

³³Kfv.V.35.088/2025/8. (6 November 2025), <https://eakta.birosag.hu/anonimizalt-hatarozat-pdf/?birosagName=K%C3%BArria&ugyszam=Kfv.35088/2025/8&azonosito=7a6d8275-e4f4-4874-836c-c15309580603>.

findings reinforce the conclusion that the imposition was implemented through legally unjustified and disproportionate means.

In response to the liquidity crisis of the city of Budapest, in late 2025, the Hungarian Government enacted a law titled “*On the Provision of Loans to Prevent the Bankruptcy of the Capital*”.³⁴ Though it was presented as a measure to ensure the payment of municipal employees’ salaries, the law raises serious concerns regarding procedural fairness and local government autonomy. Most notably, this law was passed without any prior consultation, meaningful participation by the city, or information exchange between Budapest and the government. This indicates that the law was primarily intended as a mechanism of hierarchical and political control over an opposition-led local government.

The law imposes strict requirements and conditionalities for accessing the loan:

- (1) Detailed reporting obligations (consolidated budgets, asset inventories, organizational restructuring, liquidity plans);
- (2) Criminal liability for non-compliance with reporting or management duties;
- (3) Central oversight and approval of all loan disbursements via the Hungarian Development Bank (MFB Zrt.), with independent municipal initiatives subordinated to government scrutiny;
- (4) Binding procedural rules allowing the Budapest Government Office to declare financial difficulties and trigger loans without any possibility for immediate judicial review.

These provisions collectively undermine the autonomy of the capital, imposing intrusive reporting, operational, and criminal sanctions that go beyond what is necessary to ensure the continuity of public services. The enforcement structure allows the state to directly control the timing, amounts, and conditions of funds intended to cover salaries and other municipal obligations, while simultaneously subordinating the capital’s decision-making capabilities to politically appointed bodies.

In practice, the design places Budapest’s municipal authorities in a position of dependency, subjecting them to ongoing monitoring, and potential penalties for failure to comply with centrally imposed requirements.

In the broader context of Hungary’s rule-of-law erosion, this “emergency” measure is the culmination of a deliberate strategy to subordinate local self-government: the emergency loan legislation consolidates central control, bypasses municipal decision-making processes, and instrumentalizes financial “assistance” as a tool of political domination.

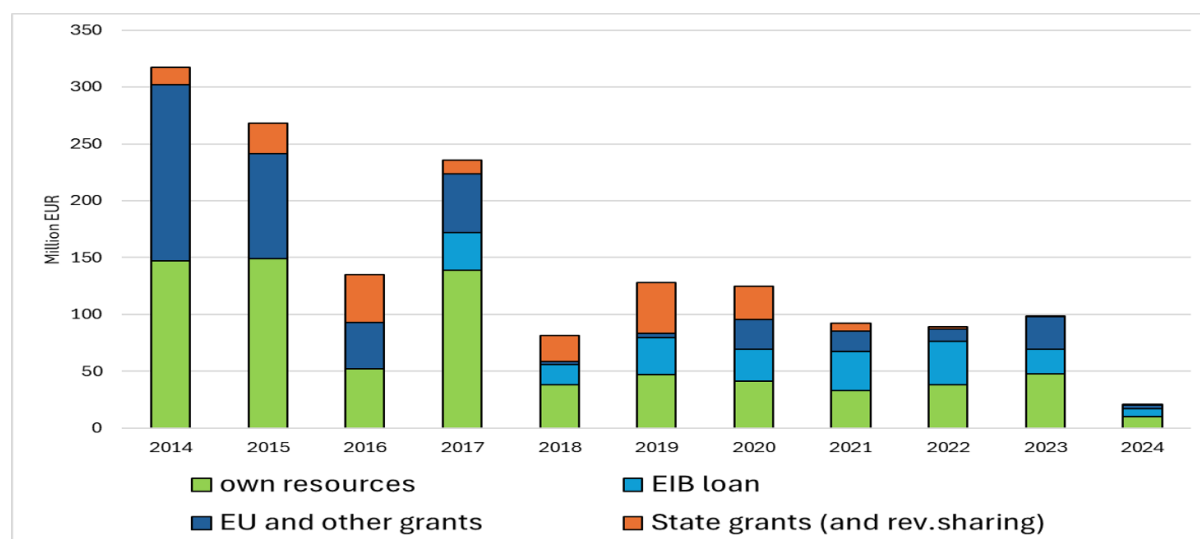
International markets also noticed these trends. As a direct consequence, on 29 December 2025, Moody’s Ratings downgraded Budapest, lowering its Baseline Credit Assessment (BCA) from baa3 to ba1, into the “junk” category, and placing it under review for further downgrades.³⁵ Moody’s also highlighted the political dimension of the risk: central government interventions—such as forced repayment of the Solidarity Tax through arbitrary treasury actions, and the end-of-year emergency loan legislation with extensive oversight and criminal liability—had eroded Budapest’s autonomy and financial independence, increasing systemic

³⁴Egyes Gazdálkodási Szabályokról, 441/2025. (XII. 23.) Korm. rendelet (2026), <https://njt.hu/jogszabaly/2025-441-20-22>.

³⁵‘Ratings.Moodys.Com’, accessed 21 January 2026, <https://ratings.moodys.com/ratings-news/457016>.

risk. The agency explicitly noted that the combination of weakened governance and political tensions contributed to its decision to downgrade.

Figure 3: Capital investment and its sources - Municipality of Budapest 2014-2024 (inflation corrected, base=2014)



EU Funds

The involvement of the City of Budapest in EU funding follows similar patterns and highlights a broader trend of political discrimination towards the opposition-led capital and the national government's disregard of its obligations under the principle of partnership.

An important example is the consultation and planning for the Recovery and Resilience Facility (RRF). According to a 2022 CIDOB Report, the Hungarian National Recovery and Resilience Plan (NRRP) lacked any meaningful consultation and participation of cities and local authorities.³⁶ The final draft of the NRRP was not published for stakeholders to consider prior to its submission to the European Commission. While Budapest had clear and tangible feedback and proposals on decarbonisation and energy efficiency, and while this was communicated on many occasions towards the government, this feedback was never really taken into account in any shape or form. As a consequence, not a single cent from the RRF was allocated to Budapest.

The marginalisation of Budapest is not limited to the RRF, but it is equally evident in the planning and implementation of EU Cohesion Policy funds, including the operational programmes for the 2021–2027 programming period. During the 2014–2020 period, which coincided with the mayorship of István Tarlós—the former mayor from the governing party

³⁶ 'The Hungarian Recovery and Resilience Plan: Neglecting Cities' Contributions', accessed 16 January 2026, <https://www.cidob.org/en/publications/hungarian-recovery-and-resilience-plan-neglecting-cities-contributions>.

(Fidesz)—there were several important EU-funded projects and most planned initiatives were carried out until their completion.

In contrast, during the preparation of the Partnership Agreement and the operational programmes, the Municipality of Budapest was effectively excluded from the planning phase. Despite its constitutional status as the capital city and its central role in delivering EU objectives—particularly in areas such as climate transition, sustainable mobility, and social inclusion—Budapest was not meaningfully involved in consultations. As a result, in the initial allocation phase, zero funding was earmarked for Budapest under several programmes, an unprecedented decision in the context of EU cohesion policy. This sharp discrepancy underlines that the degree of municipal involvement rests heavily on political considerations.

Only following sustained pressure—primarily from the European Commission and other EU-level actors—were the programmes subsequently amended. These revisions, however, merely minimally reflected Budapest’s needs and project priorities, and did not remedy the structural exclusion of the capital from decision-making. The adjustments appear to have been reactive rather than the result of genuine partnership, falling short of the partnership principle enshrined in EU law.

At the implementation stage, the central government has taken active steps to obstruct funding opportunities affecting Budapest. Calls for proposals relevant to the capital have been delayed, narrowed, or administratively complicated, and the conclusion of grant agreements has been systematically hindered. This practice is particularly evident in the case of ITOP Plus, an operational programme under which the allocation of funds to Budapest is explicitly required. Despite this legal obligation, to date, not a single grant agreement has been concluded between the managing authority and the Municipality of Budapest, while contracts with other municipalities and regions have been signed without comparable delay.

This asymmetric implementation cannot be explained by administrative capacity or project readiness. Rather, it reflects a deliberate political strategy whereby the financial consequences of EU rule of law procedures are effectively shifted onto the capital city. In practice, the central government seeks to ensure that funds suspended or lost due to rule of law deficiencies at the national level are compensated for by reducing or withholding resources that would otherwise flow to Budapest.

Such practices amount to a serious distortion of EU cohesion policy objectives and undermine the principles of equal treatment, legal certainty, and sound financial management. As Budapest is an important final beneficiary of EU funds, due to the central government’s rule-of-law violations, its resources are further limited (see figure 3).

2.2.3 Political discrimination and violation of fundamental rights

Besides the financial burden, the City of Budapest and its Mayor, Gergely Karácsony, have increasingly become the target of politically charged campaigns and legal actions. Over recent years, the municipality and its leadership have been subjected to sustained smearing and disinformation efforts aimed at undermining their legitimacy and public credibility. These campaigns have frequently portrayed the municipal administration as “incompetent” or “unfit to govern,” despite the fact that many of the city’s difficulties stem directly from central government measures.

A particularly illustrative example of this pattern is the so-called “City Hall case” (Városháza-ügy). For approximately one year, government-affiliated political actors and pro-government media outlets repeatedly accused the Mayor of Budapest of intending to sell the City Hall building. These allegations dominated public discourse for several months, despite the fact that they were entirely unfounded. Not only was there no factual basis for the claims, but Hungarian law explicitly excluded the possibility of selling the City Hall building, making the accusations legally absurd from the outset.

Nevertheless, the narrative was relentlessly amplified, creating the public impression of serious wrongdoing. Under apparent political pressure, law enforcement authorities initiated criminal investigative measures, including searches conducted at the premises of several senior municipal officials. These actions significantly reinforced the appearance of criminal conduct, despite the absence of any substantiated legal grounds, and contributed to the criminalisation of the municipal leadership in the public eye.

The use of investigative powers in this context raises serious concerns regarding proportionality, procedural fairness, and the misuse of law enforcement for political purposes. Rather than serving legitimate criminal justice objectives, the proceedings functioned as instruments of intimidation and reputational damage, undermining the effective functioning of an opposition-led local government.

This pattern of political pressure was further compounded in 2025, when Hungarian police recommended the initiation of proceedings against Mayor Karácsony for his role in organizing Budapest Pride, on the basis of a newly adopted and highly controversial amendment to the law on freedom of assembly. This is particularly problematic as the law violates the Charter of Fundamental Rights of the European Union, in particular freedom of expression (Art. 11), freedom of assembly and association (Art. 12), and, most importantly, non-discrimination (Art. 21), which prohibits any discrimination “based on any ground such as [...] sexual orientation”.

Taken together, these developments demonstrate a broader strategy of political discrimination, whereby legal and administrative tools are employed to stigmatise, intimidate, and weaken municipal authorities that are perceived as politically adversarial.

Such practices not only violate fundamental rights but also erode trust in the neutrality of public institutions and the rule of law. They further contribute to a chilling effect on local democratic governance, reinforcing the broader pattern of institutional pressure on Budapest as an opposition-led capital.

Conclusion

This contribution highlights that not only civil society, but local governments and municipalities also largely depend on the rule of law to function. In cases of major rule of law backsliding, cities, as is the case in Hungary, can experience significant financial and legal measures and political discrimination by national authorities.

In light of these developments, we strongly urge the Commission to take further steps to remedy the situation. In particular, we believe that:

1. The Rule of Law report should explicitly assess whether local and municipal authorities are able to exercise their legally assigned competences, and whether financial autonomy and institutional independence are effectively guaranteed. Particular attention should be paid to patterns of political pressure and discrimination towards municipal, local and city authorities.
2. The inclusion of a dedicated chapter specifically on these issues in the Rule of Law Report is necessary to reflect the constitutional role of the municipalities and local governments.
3. The European Semester should systematically examine the situation of municipalities, particularly with regard to fiscal sustainability, access to resources, and compliance with the partnership principle. Country-specific recommendations should be relevant, explicitly addressing deficiencies affecting municipalities and cities.
4. To support the preparation of the annual EU Rule of Law Report's municipal chapter, the European Union Agency for Fundamental Rights (FRA) should systematically focus on the state of cities and municipalities in the EU, by gathering, analysing and comparing relevant data.